

Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 EA-07 ISO-00 AID-05 CIAE-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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STR-04 CEA-01 L-03 H-02 /092 W
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R 170857Z FEB 76

FM AMEMBASSY SOFIA

TO SECSTATE WASHDC 815

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BONN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY VIENNA

AMEMBASSY WARSAW

USLO PEKING

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E.O. 11652: NA

TAGS: BEWT, BU

SUBJECT: COMPENSATION ARRANGEMENTS IN EAST-WEST TRADE

REF: (A) STATE 012648; (B) MOSCOW 1106

1. FOLLOWING ARE OUR COMMENTS ON COMPENSATION ARRANGEMENTS AS FACTOR IN BULGARIAN TRADE WITH WEST.

2. TYPES OF COMPENSATION ARRANGEMENTS. BULGARIANS CLAIM GREAT FLEXIBILITY IN TYPES OF COMPENSATION ARRANGEMENTS THEY ARE WILLING TO CONSIDER. FOLLOWING
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ARE VARYING TYPES (ALONG WITH EXAMPLES) THAT HAVE COME

TO ATTENTION OF EMBASSY.

A. PRODUCTION FROM PLANT EITHER BUILT FROM START OR MODERNIZED BY USING WESTERN EQUIPMENT, TECHNOLOGY AND/OR KNOW-HOW. BULGARIANS STRESS THIS PARTICULAR FORM TO POINT WHERE IT PARTIALLY REFUTES THEIR CLAIMS OF FLEXIBILITY IN TYPES OF COMPENSATION AGREEMENTS. TWENTY MILLION DOLLAR CANNING FACTORY BUILT BY ITALIAN FIRM AT PAZARDZHIK IS GOOD EXAMPLE. AMERICAN FIRM REPORTEDLY LOST OUT ON CONTRACT BECAUSE OF UNWILLINGNESS TO ACCEPT PRODUCT IN COMPENSATION.

B. JOINT SALES FROM BULGARIAN PRODUCTION IN THIRD COUNTRIES. AUSTRIAN FIRM KOHMAIER, UNDER ITS OWN BRAND NAME, MARKETS CHAINS PRODUCED IN BULGARIA IN THIRD COUNTRIES. BRITISH FIRM, RUBERY-OWEN, HAS SIMILAR TYPE ARRANGEMENT FOR SELLING CONTAINER HOISTS PRODUCED IN BULGARIA.

C. SUPPLY OF COMPONENTS. THIS MAY TAKE FORM OF BULGARIAN PRODUCTION BEING USED IN ASSEMBLY OF FINISHED PRODUCT IN WESTERN COUNTRY, OR AN EXCHANGE OF COMPONENTS WITH ASSEMBLY OF FINISHED PRODUCT IN BOTH WESTERN COUNTRY AND BULGARIA, FOR DOMESTIC OR OTHER AGREED-UPON MARKETS. EXAMPLE OF FORMER IS AUSTRIAN FIRM DRAMSEX WHICH SELLS AIRCONDITIONING EQUIPMENT IN BULGARIA, BUT PURCHASES PARTS MADE TO ITS SPECIFICATIONS. SPECIFIC EXAMPLE OF LATTER IS NOT KNOWN, BUT AUSTRIAN FIRMS REPORTEDLY HAVE SUCH AGREEMENTS.

D. COMPLETELY UNRELATED PRODUCTS. ITALIAN FIRM, TECHNIPETROL, WHICH IS BUILDING ETHYLENE PLANT AT BURGAS, IS ACCEPTING BALKANCAR FORK LIFTS IN AT LEAST PARTIAL PAYMENT. AGREEMENT TAKES FORM OF TWO COMPLETELY SEPARATE CONTRACTS. DAIMLER-BENZ, WHICH DOES SUBSTANTIAL BUSINESS IN BULGARIA, HAS REPORTEDLY CREATED A SPECIAL DEPARTMENT WHICH DEALS WITH NOTHING BUT MARKETING OF BULGARIAN TOMATOES.

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3. ABOVE LIST IS NOT MEANT TO BE COMPREHENSIVE. IN ANY CASE, SMALLER SCALE ARRANGEMENTS ARE MORE LIKELY TO HAVE BEEN IMPLEMENTED THUS FAR BECAUSE GOB DECISION-MAKING ON LARGER PRODUCTS IS EXTREMELY PROTRACTED, WESTERN FIRMS ARE RELUCTANT TO ENTER INTO LARGE VENTURES INVOLVING COMPENSATION BECAUSE THEY LACK REQUISITE MARKETING ORGANIZATIONS FOR PRODUCTS TO BE PRODUCED,

AND/OR HAVE DIFFICULTIES IN LOCATING A SUITABLE MARKET. HOWEVER, GERMAN AMBASSADOR CLAIMS AT LEAST ONE-HALF OF ALL GERMAN FIRMS EXPORTING TO BULGARIA HAVE SOME FORM OF COMPENSATION AGREEMENT. THIS MAY PARTIALLY EXPLAIN GERMAN SUCCESS IN BULGARIAN MARKET, BUT WITH GERMAN EXPORTS TO BULGARIA RUNNING SOME SIX TIMES AHEAD OF IMPORTS, IT IS OBVIOUS THAT IF COMPENSATION AGREEMENTS ARE SO NUMEROUS THEY PROVIDE ONLY LIMITED, PARTIAL COMPENSATION.

4. SIMILARITIES/DIFFERENCE TO DIFFERENT TYPES OF FOREIGN INVESTMENT. BULGARIANS HAVE LONG STATED BULGARIAN CONSTITUTION FORBIDS JOINT EQUITY VENTURES WITHIN BULGARIA; YET WE WERE TOLD IN 1975--THOUGH DETAILS ARE LACKING--IRAN REACHED JOINT EQUITY AGREEMENT WITH BULGARIA IN FOOD PROCESSING FIELD. IN ADDITION, BULGARIANS INSIST MANAGEMENT IN ANY ENTERPRISE HERE MUST ALWAYS BE UNDER BULGARIAN CONTROL, BUT WE UNDERSTAND INTERCONTINENTAL HOTELS SIGNED A MANAGEMENT AGREEMENT LAST YEAR FOR NEW HOTEL ON WHICH CONSTRUCTION IS EXPECTED TO BEGIN NEXT MONTH. OTHER DIFFERENCES INCLUDE INABILITY OF WESTERN FIRMS TO CONTROL QUALITY, TO DICTATE MARKETING DECISIONS OR TO DETERMINE PRODUCTION LEVELS. BULGARIANS INSIST, HOWEVER, THAT THESE PROBLEMS CAN BE AND ARE SATISFACTORILY RESOLVED WITHIN EXISTING REGULATIONS DURING NEGOTIATING PROCESS LEADING TOWARD CONTRACT.

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5. SIGNIFICANCE OF COMPENSATION ARRANGEMENTS IN EAST-WEST TRADE. COMPENSATION ARRANGEMENTS HAVE BECOME MORE AND MORE IMPORTANT AS A METHOD OF RELIEVING PRESSURE ON HARD CURRENCY EARNINGS, PARTICULARLY IN THE PAST TWO YEARS OF SIGNIFICANT HARD CURRENCY DEFICITS. BULGARIA IS IN A RUSH TO MODERNIZE AS QUICKLY AS POSSIBLE, BUT WITHOUT COMPENSATION AGREEMENTS THOSE PROJECTS WITH LOWER PRIORITIES WOULD HAVE TO FALL BY WAYSIDE. LARGER PROJECTS IN FUTURE WILL ALMOST CERTAINLY REQUIRE SOME FORM OF COMPENSATION IN PRODUCTION, AND WHILE LEVEL OF THIS TYPE OF ARRANGEMENT WITH RELATION TO TOTAL FOREIGN TRADE IS PRESENTLY RATHER LOW, IT CAN BE LIMITED OFFICIAL USE

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EXPECTED TO RISE IN FUTURE. BARTER AS A FORM OF TRADE, ON THE OTHER HAND, IS BECOMING INCREASINGLY RARE.

6. IMPACT OF COMPENSATION ARRANGEMENTS ON TRADE. EMBASSY FEELS U.S.-BULGARIAN TRADE WOULD INCREASE, PERHAPS DRAMATICALLY, IF MORE U.S. FIRMS COULD SETTLE FOR COMPENSATION ARRANGEMENTS RATHER THAN INSIST ON STRAIGHT SALES. PROBLEM IS MANY U.S. FIRMS ARE UNWILLING OR UNABLE TO OPERATE UNDER SUCH AGREEMENTS. ADDITIONALLY, SMALLER FIRMS ARE SOMEWHAT HANDICAPPED IN NOT BEING ABLE TO HANDLE MULTIPLE FACETS OF A PROJECT WITH COMPENSATION PAYMENT ARRANGEMENTS. THUS ADVANTAGE WILL LIE WITH LARGE, DIVERSIFIED MULTINATIONALS. ONE LARGE MULTINATIONAL, HOWEVER, HAS STATED THAT ANTI-TRUST CONSIDERATIONS WOULD PREVENT IT FROM ENTERING INTO CERTAIN TYPES OF COMPENSATION ARRANGEMENTS.

7. EFFECT ON U.S. EXPORTS TO THIRD COUNTRIES. EMBASSY'S EXPERIENCE IS THAT U.S. FIRMS ARE VERY CAREFUL WHEN NEGOTIATING COMPENSATION ARRANGEMENTS TO CONSIDER IMPACT ON THEIR OWN EXISTING PRODUCTION LINES IN OTHER COUNTRIES.

USUAL ATTITUDE IS THAT EXISTING ARRANGEMENTS WHICH ARE SATISFACTORY ARE NOT TO BE JEOPARDIZED OR INJURED BY ANY POSSIBLE PROJECTS HERE. MARKETING OF BULGARIAN PRODUCTION IN COMPETITION WITH U.S. COMPANIES IN REGIONS WHERE CONTRACTING FIRM WAS NOT PREVIOUSLY ACTIVE COULD OF COURSE AFFECT TOTAL U.S. EXPORTS.

8. REF A LISTS SIX ITEMS WHICH MIGHT MOTIVATE SOCIALIST COUNTRIES TO NEGOTIATE COMPENSATION ARRANGEMENTS. OF THOSE SIX, DESIRE FOR CONTINUOUS FLOW OF THE MOST ADVANCED TECHNOLOGY COMBINED WITH HARD CURRENCY LIMITATIONS ARE CRUCIAL FACTORS FOR BULGARIA. WHEN IMPORTS BECOME LARGE ENOUGH DESIRE FOR SELF-SUFFICIENCY GROWS ACCORDINGLY, BUT THIS IS BASICALLY JUST ANOTHER FACET OF CONSERVING HARD CURRENCY RESERVES. OTHER ITEMS IN LIST ARE OF LESSER IMPORTANCE; MARKET ACCESS AND BALANCING BILATERAL TRADE ARE IMPORTANT TO THE BULGARIANS ONLY AS THEY RELATE TO HARD CURRENCY. QUESTIONS OF ECONOMIES OF SCALE ENTER IN PARTICULARLY AS REGARDS CEMA LIMITED OFFICIAL USE

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SPECIALIZATION AND INTEGRATION; EFFICIENCY, INCREASED LABOR PRODUCTIVITY, AND MODERNIZATION AND RECONSTRUCTION OF EXISTING FACILITIES LOOM FAR MORE IMPORTANT AS GOALS, HOWEVER, WHILE ECONOMIES OF SCALE ARE METHODS BY WHICH TO ACHIEVE THEM.
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